

**FINANCIAL REPORT  
CITY OF PETOSKEY  
December 31, 2004**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Petoskey</b>	County <b>Emmet</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>3/4/05</b>	Date Accountant Report Submitted to State: <b>6/15/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

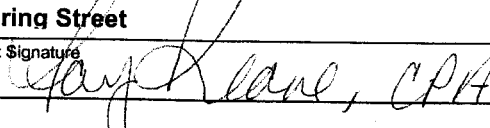
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hill, Schroderus &amp; Co., LLP</b>			
Street Address <b>923 Spring Street</b>	City <b>Petoskey</b>	State <b>MI</b>	ZIP <b>49770</b>
Accountant Signature 		Date <b>6/10/05</b>	

**CITY OF PETOSKEY  
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# Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

March 4, 2005

## Independent Auditor's Report

Honorable Mayor, Members of  
City Council and City Manager  
City of Petoskey, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Petoskey, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Petoskey as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the General Fund and the Major Special Revenue Funds, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the pension plan trend information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Petoskey's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan



# City of Petoskey

Department of Finance

101 East Lake Street, Petoskey, Michigan 49770 • 231 347-2500 • Fax 231 348-0350

## Management Discussion and Analysis December 31, 2004

The City of Petoskey's financial statements consists of a series of financial reports. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and presents a longer-term view of the City's finances. Fund financial statements tell how the services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

### Financial Highlights

The City's net assets increased by \$3.2 million or 6% in 2004 with the increase made up of the following:

Governmental net assets increased by \$1.1 million.

Business-type net assets increased by \$2.0 million.

Component units net assets increased by \$0.1 million.

Total revenues and transfers for the year are \$22.7 million and are made up of the following:

Governmental activities \$8.9 million.

Business-type activities \$12.4 million.

Component units activities \$1.4 million.

Total expenses for the year are \$19.6 million and are made up of the following:

Governmental activities \$7.8 million.

Business-type activities \$10.5 million.

Component units activities \$1.3 million.

The General Fund on a current financial resources basis experienced a reduction of \$30,609 in fund balance resulting in a total fund balance at year end of \$2.5 million.

### Project Highlights

The City's \$5.3 million library construction project on the corner of Mitchell and Waukazoo Streets was completed in 2004. The project funded by a \$4.3 million dollar bond issued in July of 2003 and cash reserves now focuses on work to the Carnegie Building (previous library) in 2005.

The City constructed restroom facilities at Bayfront Park through the Tax Increment Finance Authority. Tax increment financing which funds the Authority's projects expired on June 30, 2004 but, the City Council approved extending Tax Increment Financing beyond the expiration date at their June 21, 2004 City Council Meeting.

## Financial Statement Presentation

### Overview of Statements

The financial statements provide two views of the City's financial position. Government-wide statements are the top level which summarize all City funds into two statements using the full accrual method of accounting. This method of accounting is similar to private sector for profit accounting.

Government-wide statements include the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets includes; assets, liabilities and the resulting difference between the two called net assets. Changes in net assets can be reviewed to determine financial strength with increases to net assets perceived as a sign of improving condition.

The Statement of Activities presents revenues and expenses (including depreciation) that are the underlying cause of changes in net assets. Capital projects are excluded from this statement since they are included in the Statement of Net Assets as additions to capital assets.

Fund financial statements under GASB Statement 34 separate funds into Major and Non Major categories. Major funds focus on funds with a large amount of financial activities which results in the inclusion of more detailed information. Governmental Funds for the City of Petoskey include the following major funds:

- General Fund
- Right of Way Improvement Fund
- Major Street Fund
- Local Street Fund

Non major funds are smaller funds with less activities and are consolidated into one column in the fund financial statements. Additional and more detailed information on non major funds is presented after the notes to the financial statements.

### Fund Type Statements

The City's funds are organized on the basis of individual funds with each fund having a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Funds are classified as either governmental, proprietary or fiduciary in nature.

Governmental funds make up the funds included within the governmental activities column of the government-wide statements discussed above except for internal service funds (Motor Pool & Fringe Benefits) that are included in government-wide statements and are not governmental funds.

Governmental funds utilize a modified accrual basis of accounting that focuses on more available and spendable resources and expenses like debt payments and capital purchases. Long-term debt and depreciation are not recorded under the modified accrual basis of accounting.

This varies from the full accrual basis of accounting used in the government-wide statements that record the purchase of capital items as assets and depreciates them over time and records long-term debt as a liability reducing the principal portion from the liability when paid and only expensing interest. There are also other less significant differences between the two accounting methods.

## Financial Statement Presentation – continued

Proprietary funds use the full accrual method of accounting for both government-wide and fund level financial statements. There are two types of proprietary funds they are enterprise and internal service funds.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where costs for goods and services provided to the general public are recovered primarily through user charges. The City's enterprise funds include the Electric, Water, & Sewer and Downtown Management Parking Funds, although the Downtown Management Parking Fund is included as a component unit.

Internal service funds are like enterprise funds except they only provide their goods or services to City departments and agencies. The City's internal service funds include the Fringe Benefit and Motor Pool Funds. Internal service funds are consolidated into the governmental activities in the government-wide statements and are presented separately in the fund level statements.

Component units are separate legal entities for which the City has some level of financial accountability and oversight control. Component units are shown in a separate column of the government-wide financial statements. The City's component units include the Tax Increment Finance Authority, Library, and Downtown Management Parking Funds. Separate financial statements for the component units are not required and none are issued.

## Financial Analysis

### Summary of Net Assets December 31, 2004 and 2003

	Governmental	Activities	Business-type	Activities	Total Primary	Government
	2004	2003	2004	2003	2004	2003
Current and other assets	\$5,573,086	\$4,933,230	\$18,641,525	\$17,526,286	\$24,214,611	\$22,459,516
Capital assets	16,035,965	15,838,410	30,529,591	29,356,143	46,565,556	45,194,553
Total assets	\$21,609,051	\$20,771,640	\$49,171,116	\$46,882,429	\$70,780,167	\$67,654,069
Current and other liabilities	\$834,301	\$754,058	\$2,044,972	\$1,356,997	\$2,879,273	\$2,111,055
Long-term debt outstanding	940,000	1,257,835	11,913,775	12,275,642	12,853,775	13,533,477
Total liabilities	\$1,774,301	\$2,011,893	\$13,958,747	\$13,632,639	\$15,733,048	\$15,644,532
Net assets:						
Invested in capital assets, net of related debt	\$14,832,048	\$14,375,575	\$17,959,591	\$16,401,143	\$32,791,639	\$30,776,718
Restricted	77,494	71,659	4,688,615	4,762,320	4,766,109	4,833,979
Unrestricted	4,925,208	4,312,513	12,564,163	12,086,327	17,489,371	16,398,840
Total net assets	\$19,834,750	\$18,759,747	\$35,212,369	\$33,249,790	\$55,047,119	\$52,009,537



## Financial Analysis – continued

Total net assets of the City are \$55,047,119 which is made up of \$32,791,639 in capital assets net of debt. Capital assets are largely made up of electric system, water system, sewer system and street system assets.

The City used fund balance reserves in the following governmental funds and amounts during 2004 to cover anticipated expenditures that were included in the City's 2004 budget:

General Fund	\$30,609
Local Street Fund	48,474
General Street Fund	105,017
Tax Increment Finance Authority Fund	99,026
Library Fund	3,545,244
Downtown Development & Management Fund	25,569

### Common Effects to Net Assets

There are a number of transactions in the normal course of business that will effect the comparability of the Summary of Net Assets presentation.

The net result of business activities for the year will impact (increase/decrease) current assets and/or net assets.

Borrowing capital will increase current assets and long-term debt.

Spending of borrowed proceeds on capital projects will reduce current assets and increase capital assets while having no impact on invested in capital assets, net of debt.

Spending non-borrowed current assets on capital projects will reduce current assets and increase capital assets while reducing unrestricted net assets and increasing invested in capital assets net of debt.

Principal payment on debt will reduce current assets, long-term debt and unrestricted net assets while increasing invested in capital assets, net of related debt.

Reduction of capital assets due to annual depreciation will reduce capital assets and invested in capital assets, net of debt.

## Financial Analysis – continued

### Changes in Net Assets December 31, 2004 and 2003

	Governmental	Activities	Business-type	Activities	Total Primary	Government
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	\$1,687,121	\$953,227	\$12,118,252	\$12,022,858	\$13,805,373	\$12,976,085
Operating grants & contributions	831,931	720,800	79,940	80,065	911,871	800,865
Capital grants & contributions	-	2,147,271	254,455	120,648	254,455	2,267,919
	2,519,052	3,821,298	12,452,647	12,223,571	14,971,699	16,044,869
General revenues:						
Property taxes	5,104,246	3,438,246	-	-	5,104,246	3,438,246
Sales tax	564,390	619,684	-	-	564,390	619,684
Investment earnings	206,443	68,639	359,307	221,825	565,750	290,464
Other	-	13,547	-	-	-	13,547
	5,875,079	4,140,116	359,307	221,825	6,234,386	4,361,941
Total revenues	8,394,131	7,961,414	12,811,954	12,445,396	21,206,085	20,406,810
Expenses						
Program expenses:						
Legislative	11,443	9,258	-	-	11,443	9,258
General government	1,362,219	1,241,519	-	-	1,362,219	1,241,519
Public safety	2,474,481	2,450,987	-	-	2,474,481	2,450,987
Public works	1,737,297	1,994,294	-	-	1,737,297	1,994,294
Health & welfare	21,012	542,049	-	-	21,012	542,049
Recreation & cultural	1,426,241	1,222,848	-	-	1,426,241	1,222,848
Other	1,652	1,717	-	-	1,652	1,717
Interest on long-term debt	67,949	91,648	-	-	67,949	91,648
Unallocated depreciation	722,856	735,486	-	-	722,856	735,486
Water & Sewer	-	-	3,815,988	2,895,218	3,815,988	2,895,218
Electric	-	-	6,663,387	6,240,251	6,663,387	6,240,251
Total expenses	7,825,150	8,289,806	10,479,375	9,135,469	18,304,525	17,425,275
Changes in net assets before transfers	568,981	(328,392)	2,332,579	3,309,927	2,901,560	2,981,535
Transfers	506,022	1,080,000	(370,000)	(1,000,000)	136,022	80,000
Changes in net assets	1,075,003	751,608	1,962,579	2,309,927	3,037,582	3,061,535
Net assets-beginning of year	18,759,747	18,008,139	33,249,790	30,939,863	52,009,537	48,948,002
Net assets-end of year	\$19,834,750	\$18,759,747	\$35,212,369	\$33,249,790	\$55,047,119	\$52,009,537

## **Financial Analysis – continued**

Capital grants and contributions in program revenues for Governmental Activities decreased to \$0 in 2004 down from \$2,144,271 in 2003. The difference is due to classifying property tax revenue for the Right of Way Improvements Fund from Program revenues – Capital grants and contributions to General revenues – property taxes due to a State redevelopment grant for the former Petoskey Manufacturing site received in 2003. The \$497,500 redevelopment grant also accounts for the decrease in Health and Welfare expenses to \$21,012 from \$542,049.

Water and Sewer expenses increased by \$920,770 to \$3,815,988 up from \$2,895,218 in 2003 due to interest expense on bonds of \$350,892 for the construction of the wastewater treatment plant that was capitalized in previous years while under construction, administrative and rent fee increases, and adjustments due to the consolidation of city funds.

Revenues from all sources totaled \$21,206,085 of which \$8,394,131 was from governmental activities and \$12,811,954 from business-type activities. Total revenues from governmental activities includes \$5,104,246 or 60.8% from property taxes and \$1,687,121 or 20.1% from charges for services. Total revenue from business-type activities includes \$12,118,252 or 94.6% from charges for services.

Expenses under the full accrual basis of accounting for governmental activities totaled \$7,825,150 which includes depreciation on such items as buildings and infrastructure amounting to \$722,856. Total expense does not include capital asset items such as reconstructed streets and sidewalks. Public safety accounts for \$2,474,481 or 31.6% of expenses while public works totals \$1,737,297 or 22.2%. General government at \$1,362,219 and recreation and cultural at \$1,426,241 were almost equal at 17.4% and 18.2% respectively.

Expenses for business-type activities total \$10,479,375 which is made up of \$6,663,387 or 63.6% from the electric system and \$3,815,988 or 36.4% from the water and sewer systems. Within the electric system \$4,815,673 or 72.3% of the expense is for purchased power. The water and sewer system costs are broken down between the two at \$1,778,192 or 46.6% water and \$2,037,796 or 53.4% sewer.

## **General Fund Budgetary Highlights**

General Fund revenues decreased by 6.6% or \$440,607 in 2004 primarily due to the \$497,500 redevelopment grant at the former Petoskey Manufacturing site included in 2003 revenues, state revenue sharing also continued to decrease by \$56,218 or 9.3%.

General Fund expenditures decreased by 4.2% or \$274,212 in 2004 again primarily due to the \$497,500 redevelopment grant at the former Petoskey Manufacturing site included in 2003 expenditures along with the inclusion in 2004 of reconstructing the Bayfront Park Marina boat launch totaling \$152,179.

## **Capital Assets and Debt Administration**

### **Capital Assets**

As of year end the City of Petoskey had \$46,565,556 invested in capital assets as reflected in the following schedule:

## Capital Assets and Debt Administration – continued

### Capital Assets December 31, 2004 and 2003 (Net of Depreciation)

Governmental	Activities	Business-type	Activities	Total Primary	Government
2004	2003	2004	2003	2004	2003
\$1,887,069	\$1,887,069	\$837,856	\$837,856	\$2,724,925	\$2,724,925
365,180	273,505	-	-	365,180	273,505
2,413,257	2,508,514	-	450,009	2,413,257	2,958,523
380,733	417,644	-	-	380,733	417,644
9,163,272	8,955,466	-	-	9,163,272	8,955,466
1,826,454	1,796,212	-	-	1,826,454	1,796,212
-	-	8,863,791	6,573,762	8,863,791	6,573,762
-	-	9,059,610	9,372,544	9,059,610	9,372,544
-	-	11,768,334	12,121,972	11,768,334	12,121,972
\$ 16,035,965	\$ 15,838,410	\$ 30,529,591	\$ 29,356,143	\$ 46,565,556	\$ 45,194,553

#### Major capital asset additions for 2004 include:

##### Governmental Activities

Street reconstruction projects	\$767,002
Marina boat launch	118,911
Sewer jet and truck	123,069
Motor pool replacement	190,294

##### Business-Type Activities

Wastewater treatment plant renovations	41,159
Charlevoix Avenue underground project	1,897,193
Electric system improvements	249,875

#### Bond Debt

The City had \$13,720,000 in outstanding bond debt at year end which is distributed in the following debt schedule:

## Capital Assets and Debt Administration – continued

### Debt Schedule December 31, 2004 and 2003

Governmental Activities	2004	2003
General Obligation Bonds	\$55,000	\$105,000
Special assessment	500,000	610,000
Municipal facilities	595,000	640,000
Parking improvements	1,150,000	1,355,000
Business-Type Activities		
Revenue Bonds	7,400,000	7,450,000
Sewer system improvements	5,170,000	5,505,000
Water system improvements	12,570,000	12,955,000
Total bond debt	\$13,720,000	\$14,310,000

Principal payments on bonds in the amount of \$205,000 for governmental activities and \$385,000 for business-type activities were made in 2004.

## Economic Factors

The City of Petoskey's three largest sources of revenue include property taxes, revenues received from the state and utility charges. The economic forecast for the community is dependent on these three revenue sources.

Property tax revenue experienced substantial growth due to the development of Bay Harbor over the last several years. Bay Harbor now makes up over half of the City's total taxable value but the significant annual increases have leveled off and more normal additions to the taxable value of the city are expected in the coming years. With current conditions as they are the inflation factor that is capped by State law at 5% will continue to be considerably less than the capped amount resulting in more nominal increases in taxable value due to inflation.

Revenue sharing amounts are dependent on the collection of sales tax which tend to go down when the economy is slow with the reverse being true when the economy is good. Transportation funds are derived through gas taxes and while they are affected by the economy they are more affected by the price of oil and resulting gas prices that don't always follow economic conditions.

Utility charges for electric, water, and sewer service tend to fluctuate based on weather conditions more so than any other factor. During hot summer months electrical usage will be up while dry spells will increase water usage. Electric and water utility rates have not been increased in several years but due to rising costs plus concerns over water quality issues increases in water rates will be required in the near future.

## **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Director of Finance at 101 E. Lake Street, Petoskey, MI 49770.

**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**December 31, 2004**

<u>Assets</u>	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Current Assets</b>			
Cash	\$ 4,505,834	\$ 6,534,338	\$ 11,040,172
Investments	694,185	3,952,500	4,646,685
Receivables:			
Taxes	-	-	-
Special assessments	54,361	-	54,361
Accounts	56,440	1,789,129	1,845,569
Due from fiduciary fund	542,176	-	542,176
Due from primary government	-	-	-
Due from other governmental units	237,694	-	237,694
Internal balances	(631,972)	631,972	-
Inventory	114,368	559,057	673,425
Total current assets	5,573,086	13,466,996	19,040,082
<b>Noncurrent Assets</b>			
Restricted assets:			
Customer deposits	-	176,694	176,694
Sewage service covenants	-	168,257	168,257
Revenue bond covenants	-	2,416,859	2,416,859
MPPA energy restrictions	-	2,103,499	2,103,499
Deferred charges	-	120,248	120,248
MPPA working capital advance	-	188,972	188,972
Capital assets	27,056,514	44,469,149	71,525,663
Less: accumulated depreciation	(11,020,549)	(13,939,558)	(24,960,107)
Total noncurrent assets	16,035,965	35,704,120	51,740,085
Total assets	\$ 21,609,051	\$ 49,171,116	\$ 70,780,167

See accompanying notes to the basic financial statements.

Component Units	
Library	Other Nonmajor Component Units
\$ 879,693	\$ 410,843
-	-
-	68,596
-	-
-	-
78,159	-
31,872	8,700
-	-
-	-
-	-
<u>989,724</u>	<u>488,139</u>
-	-
-	-
-	-
-	-
40,913	-
-	-
6,576,158	260,033
(960,445)	(13,002)
<u>5,656,626</u>	<u>247,031</u>
<u>\$ 6,646,350</u>	<u>\$ 735,170</u>



**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**(Continued)**  
**December 31, 2004**

<b><u>Liabilities and Net Assets</u></b>	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Current Liabilities</b>			
Accounts payable	\$ 328,723	\$ 1,161,560	\$ 1,490,283
Accrued expenses	41,768	6,944	48,712
Due to component unit	38,720	-	38,720
Due to primary government	-	-	-
Due to other governmental units	-	80,848	80,848
Accrued interest	12,982	-	12,982
Payable from restricted assets:			
Current portion of revenue bonds	-	380,000	380,000
Accrued interest	-	238,926	238,926
Capital lease	53,917	-	53,917
Bonds payable, due within one year	210,000	-	210,000
Total current liabilities	686,110	1,868,278	2,554,388
<b>Noncurrent Liabilities</b>			
Payable from restricted assets:			
Customer deposits	-	176,694	176,694
Estimated liability for landfill closure and postclosure care costs	90,000	-	90,000
Compensated absences payable	58,191	-	58,191
Bonds payable, net	940,000	11,913,775	12,853,775
Total noncurrent liabilities	1,088,191	12,090,469	13,178,660
Total liabilities	1,774,301	13,958,747	15,733,048
<b>Net Assets</b>			
Invested in capital assets, net of related debt	14,832,048	17,959,591	32,791,639
Restricted for:			
Debt service	77,494	-	77,494
Sewage service covenants	-	168,257	168,257
Revenue bond indentures	-	2,416,859	2,416,859
MPPA energy expenses	-	2,103,499	2,103,499
TIFA expenses	-	-	-
Unrestricted	4,925,208	12,564,163	17,489,371
Total net assets	19,834,750	35,212,369	55,047,119
Total liabilities and net assets	\$ 21,609,051	\$ 49,171,116	\$ 70,780,167

See accompanying notes to the basic financial statements.

Component Units	
Library	Other Nonmajor Component Units
\$ 189,718	\$ 20,459
4,890	-
-	-
-	1,852
-	-
40,906	-
-	-
-	-
-	-
50,000	-
285,514	22,311
-	-
-	-
-	-
4,164,133	-
4,164,133	-
4,449,647	22,311
1,365,713	247,031
-	-
-	-
-	-
-	395,144
830,990	70,684
2,196,703	712,859
\$ 6,646,350	\$ 735,170

**CITY OF PETOSKEY**  
**Statement of Activities**  
**For the Year Ended December 31, 2004**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Primary Government		Component Units
			Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities	
Primary Government								
Governmental activities:								
Legislative	\$ 11,443	\$ -	\$ -	\$ -	\$ (11,443)	\$ -	\$ (11,443)	\$ -
General government	1,362,219	902,694	6,904	-	(452,621)	-	(452,621)	-
Public safety	2,474,481	80,621	34,821	-	(2,359,039)	-	(2,359,039)	-
Public works	1,737,297	-	678,028	-	(1,059,269)	-	(1,059,269)	-
Health and welfare	21,012	-	-	-	(21,012)	-	(21,012)	-
Recreation and cultural	1,426,241	703,806	112,178	-	(610,257)	-	(610,257)	-
Other	1,652	-	-	-	(1,652)	-	(1,652)	-
Interest on long-term debt	67,949	-	-	-	(67,949)	-	(67,949)	-
Unallocated depreciation	722,856	-	-	-	(722,856)	-	(722,856)	-
Total governmental activities	7,825,150	1,687,121	831,931	-	(5,306,098)	-	(5,306,098)	-
Business-type activities:								
Water and Sewer	3,815,988	4,082,948	79,940	214,923	-	561,823	561,823	-
Electric	6,663,387	8,035,304	-	39,532	-	1,411,449	1,411,449	-
Total business-type activities	10,479,375	12,118,252	79,940	254,455	-	1,973,272	1,973,272	-
Total primary government	\$ 18,304,525	\$ 13,805,373	\$ 911,871	\$ 254,455	\$ (5,306,098)	1,973,272	(3,332,826)	-
Component Units								
Library	\$ 995,750	\$ 154,079	\$ 63,027	\$ 28,000	-	-	(750,644)	17,954
Other nonmajor component units	282,004	299,958	-	-	-	-	-	-
Total component units	\$ 1,277,754	\$ 454,037	\$ 63,027	\$ 28,000	-	-	(750,644)	17,954
General revenues:								
Property taxes					5,104,246	-	5,104,246	184,566
Sales taxes					564,390	-	564,390	-
Interest and investment earnings					206,443	359,307	565,750	8,879
Transfers					506,022	(370,000)	136,022	(136,022)
Total general revenues and transfers					6,381,101	(10,693)	6,370,408	57,423
Change in net assets					1,075,003	1,962,579	3,037,582	75,377
Net assets - beginning of year					18,759,747	33,249,790	52,009,537	637,482
Net assets - end of year					\$ 19,834,750	\$ 35,212,369	\$ 55,047,119	\$ 712,859

**CITY OF PETOSKEY**  
**Balance Sheet**  
**Governmental Funds**  
**December 31, 2004**

					Other Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>	<u>General</u>	<u>Right-of-Way Improvement</u>	<u>Major Street</u>	<u>Local Street</u>		
Cash	\$ 1,455,589	\$ 553,346	\$ 554,985	\$ 708,018	\$ 193,252	\$ 3,465,190
Investments	694,185	-	-	-	-	694,185
Receivables:						
Special assessments	-	21,753	-	-	32,608	54,361
Accounts	2,748	-	-	282	53,410	56,440
Due from other funds	366,299	174,669	7,823	6,063	1,208	556,062
Due from component units	-	-	1,852	-	-	1,852
Due from other governmental units	157,922	-	62,679	17,093	-	237,694
Inventory	-	-	-	-	75,854	75,854
Total assets	<u>\$ 2,676,743</u>	<u>\$ 749,768</u>	<u>\$ 627,339</u>	<u>\$ 731,456</u>	<u>\$ 356,332</u>	<u>\$ 5,141,638</u>
<u>Liabilities and Fund Balances</u>						
<b>Liabilities</b>						
Accounts payable	\$ 127,630	\$ -	\$ 20,679	\$ 6,551	\$ 20,787	\$ 175,647
Accrued expenditures	38,171	-	1,834	1,014	-	41,019
Due to other funds	26,719	-	1,283	710	13,887	42,599
Due to component units	28,000	-	-	-	-	28,000
Total liabilities	<u>220,520</u>	<u>-</u>	<u>23,796</u>	<u>8,275</u>	<u>34,674</u>	<u>287,265</u>
<b>Fund balances</b>						
Reserved for:						
Debt service	-	-	-	-	77,494	77,494
Inventory	-	-	-	-	75,854	75,854
Refuse collection	37,156	-	-	-	-	37,156
Marina	339,139	-	-	-	-	339,139
Unreserved:						
Undesignated	2,079,928	749,768	603,543	723,181	168,310	4,324,730
Total fund balances	<u>2,456,223</u>	<u>749,768</u>	<u>603,543</u>	<u>723,181</u>	<u>321,658</u>	<u>4,854,373</u>
Total liabilities and fund balances	<u>\$ 2,676,743</u>	<u>\$ 749,768</u>	<u>\$ 627,339</u>	<u>\$ 731,456</u>	<u>\$ 356,332</u>	<u>\$ 5,141,638</u>

**CITY OF PETOSKEY**  
**Reconciliation of Governmental Funds Balance Sheet to the**  
**Statement of Net Assets**  
**December 31, 2004**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 4,854,373</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.	
Governmental capital assets	21,826,404
Accumulated depreciation	(7,616,893)
Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds.	(12,982)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Governmental bonds payable	(1,150,000)
Capital lease	(53,917)
Compensated absences	(23,020)
Landfill postclosure costs	(90,000)
Consolidation requires that overhead charges be reported only once in the government-wide statement of activities. Therefore, payables between the governmental activities, business-type activities and component units increase.	(629,808)
Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	<u>2,730,593</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 19,834,750</u></b>

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2004**

	General	Right-of-Way Improvement	Major Street	Local Street	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 3,402,441	\$ 1,644,696	\$ -	\$ -	\$ -	\$ 5,047,137
Special assessments	-	-	-	-	57,109	57,109
Licenses and permits	54,563	-	-	-	-	54,563
State grants	654,873	-	501,476	167,963	-	1,324,312
Contributions from local units	63,420	-	-	-	-	63,420
Charges for services	1,829,890	-	-	-	-	1,829,890
Fines and forfeits	17,807	-	-	-	-	17,807
Interest	146,209	19,160	6,449	12,248	7,625	191,691
Other	110,661	-	-	282	8,307	119,250
Total revenues	6,279,864	1,663,856	507,925	180,493	73,041	8,705,179
<b>Expenditures</b>						
Current:						
Legislative	11,443	-	-	-	-	11,443
General government	1,462,380	-	-	-	-	1,462,380
Public safety	2,536,640	-	-	-	-	2,536,640
Public works	639,766	-	751,432	1,128,967	572,035	3,092,200
Health and welfare	21,012	-	-	-	-	21,012
Recreation and cultural	1,557,254	-	-	-	-	1,557,254
Other	-	1,652	-	-	-	1,652
Debt service:						
Principal	-	-	-	-	205,000	205,000
Interest and fiscal charges	-	-	-	-	64,758	64,758
Total expenditures	6,228,495	1,652	751,432	1,128,967	841,793	8,952,339
Excess (deficiency) of revenues over expenditures	51,369	1,662,204	(243,507)	(948,474)	(768,752)	(247,160)
<b>Other financing sources (uses)</b>						
Operating transfers in	-	-	500,000	900,000	564,000	1,964,000
Operating transfers out	(138,000)	(1,456,000)	-	-	-	(1,594,000)
Transfers from component units	56,022	-	-	-	80,000	136,022
Total other financing sources (uses)	(81,978)	(1,456,000)	500,000	900,000	644,000	506,022
<b>Net change in fund balances</b>	(30,609)	206,204	256,493	(48,474)	(124,752)	258,862
<b>Fund balances - beginning of year</b>	2,486,832	543,564	347,050	771,655	446,410	4,595,511
<b>Fund balances - end of year</b>	\$ 2,456,223	\$ 749,768	\$ 603,543	\$ 723,181	\$ 321,658	\$ 4,854,373

**CITY OF PETOSKEY**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended December 31, 2004**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 258,862</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.	
Expenditures for capital assets	890,169
Current year depreciation	(722,856)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt.	205,000
Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(3,191)
Compensated absences are recognized as an expenditure when it is paid in the governmental funds. In the statement of activities, however, compensated absences are recognized as an expense when earned.	105,423
Governmental funds report the proceeds of a capital lease as an other financing source of revenue. However, in the statement of net assets, this amount is shown as a liability.	53,918
Postclosure landfill costs are recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, the total estimated postclosure costs are recognized as an expense, regardless of when it is due.	195,000
Consolidation requires that overhead charges be reported only once in the government-wide statement of activities. Therefore, revenues within governmental activities decreases.	123,228
Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The net revenue (expense) of the internal service funds are included in governmental activities in the statement of activities.	(30,550)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,075,003</b>

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 3,368,000	\$ 3,368,000	\$ 3,402,441	\$ 34,441
Licenses and permits	42,700	42,700	54,563	11,863
State grants	689,500	689,500	654,873	(34,627)
Contributions from local units	51,800	51,800	63,420	11,620
Charges for services	1,747,500	1,747,500	1,829,890	82,390
Fines and forfeits	16,000	16,000	17,807	1,807
Interest	103,000	103,000	146,209	43,209
Other	100,500	100,500	110,661	10,161
Total revenues	6,119,000	6,119,000	6,279,864	160,864
<b>Expenditures</b>				
Current:				
Legislative	14,000	14,000	11,443	(2,557)
General government	1,470,700	1,470,700	1,462,380	(8,320)
Public safety	2,514,400	2,514,400	2,536,640	22,240
Public works	639,800	639,800	639,766	(34)
Health and welfare	42,500	42,500	21,012	(21,488)
Recreation and cultural	1,658,500	1,658,500	1,557,254	(101,246)
Other	400	400	-	(400)
Total expenditures	6,340,300	6,340,300	6,228,495	(111,805)
Excess (deficiency) of revenues over expenditures	(221,300)	(221,300)	51,369	272,669
<b>Other financing sources (uses)</b>				
Transfers from component units	-	-	56,022	56,022
Operating transfers out	(138,000)	(138,000)	(138,000)	-
Total other financing sources (uses)	(138,000)	(138,000)	(81,978)	56,022
<b>Net change in fund balance</b>	(359,300)	(359,300)	(30,609)	328,691
<b>Fund balance - beginning of year</b>	2,486,832	2,486,832	2,486,832	-
<b>Fund balance - end of year</b>	\$ 2,127,532	\$ 2,127,532	\$ 2,456,223	\$ 328,691



**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Major Street Fund**  
**For the Year Ended December 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Over/(Under)</u>
<b>Revenues</b>				
State grants	\$ 416,000	\$ 416,000	\$ 501,476	\$ 85,476
Interest	4,000	4,000	6,449	2,449
Total revenues	<u>420,000</u>	<u>420,000</u>	<u>507,925</u>	<u>87,925</u>
<b>Expenditures</b>				
Current:				
Construction	80,000	80,000	70,774	(9,226)
Routine maintenance	165,500	165,500	94,395	(71,105)
Winter maintenance	261,800	261,800	336,481	74,681
Traffic services	39,200	39,200	33,341	(5,859)
Administration	229,900	229,900	216,441	(13,459)
Total expenditures	<u>776,400</u>	<u>776,400</u>	<u>751,432</u>	<u>(24,968)</u>
Excess (deficiency) of revenues over expenditures	<u>(356,400)</u>	<u>(356,400)</u>	<u>(243,507)</u>	<u>112,893</u>
<b>Other financing sources (uses)</b>				
Operating transfers in	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>143,600</u>	<u>143,600</u>	<u>256,493</u>	<u>112,893</u>
<b>Fund balance - beginning of year</b>	<u>347,050</u>	<u>347,050</u>	<u>347,050</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 490,650</u>	<u>\$ 490,650</u>	<u>\$ 603,543</u>	<u>\$ 112,893</u>

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Local Street Fund**  
**For the Year Ended December 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Revenues</b>				
State grants	\$ 120,000	\$ 120,000	\$ 167,963	\$ 47,963
Interest	7,000	7,000	12,248	5,248
Other	-	-	282	282
Total revenues	127,000	127,000	180,493	53,493
<b>Expenditures</b>				
Current:				
Construction	1,000,000	1,000,000	696,228	(303,772)
Routine maintenance	82,400	82,400	83,653	1,253
Winter maintenance	136,600	136,600	139,323	2,723
Traffic services	29,600	29,600	15,599	(14,001)
Administration	218,800	218,800	194,164	(24,636)
Total expenditures	1,467,400	1,467,400	1,128,967	(338,433)
Excess (deficiency) of revenues over expenditures	(1,340,400)	(1,340,400)	(948,474)	391,926
<b>Other financing sources (uses)</b>				
Operating transfers in	900,000	900,000	900,000	-
<b>Net change in fund balance</b>	(440,400)	(440,400)	(48,474)	391,926
<b>Fund balance - beginning of year</b>	771,655	771,655	771,655	-
<b>Fund balance - end of year</b>	\$ 331,255	\$ 331,255	\$ 723,181	\$ 391,926

**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**Proprietary Funds**  
**December 31, 2004**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals Current Year</u>	
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash	\$ 3,895,406	\$ 2,638,932	\$ 6,534,338	\$ 1,040,644
Investments	2,104,000	1,848,500	3,952,500	-
Receivables:				
Accounts	1,239,903	549,226	1,789,129	-
Due from other funds	-	-	-	34,098
Due from component units	-	-	-	3,423
Inventory	440,038	119,019	559,057	38,514
Total current assets	<u>7,679,347</u>	<u>5,155,677</u>	<u>12,835,024</u>	<u>1,116,679</u>
<b>Noncurrent Assets</b>				
Restricted assets:				
Customer deposits	171,194	5,500	176,694	-
Sewage service covenants	-	168,257	168,257	-
Revenue bond covenants	-	2,416,859	2,416,859	-
MPPA energy restrictions	2,103,499	-	2,103,499	-
Deferred charges	-	120,248	120,248	-
MPPA working capital advance	188,972	-	188,972	-
Capital assets	15,674,479	28,794,670	44,469,149	5,230,110
Less: accumulated depreciation	<u>(6,527,283)</u>	<u>(7,412,275)</u>	<u>(13,939,558)</u>	<u>(3,403,656)</u>
Total noncurrent assets	<u>11,610,861</u>	<u>24,093,259</u>	<u>35,704,120</u>	<u>1,826,454</u>
Total assets	<u>\$ 19,290,208</u>	<u>\$ 29,248,936</u>	<u>\$ 48,539,144</u>	<u>\$ 2,943,133</u>

See accompanying notes to the basic financial statements.

**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**Proprietary Funds**  
**(Continued)**  
**December 31, 2004**

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Funds
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals Current Year</u>	
<b><u>Liabilities and Net Assets</u></b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 991,666	\$ 169,894	\$ 1,161,560	\$ 153,076
Accrued wages	3,562	3,382	6,944	749
Accrued vacation and sick leave	-	-	-	58,191
Due to other funds	2,493	2,368	4,861	524
Due to other governmental units	23,345	57,503	80,848	-
Total current liabilities	<u>1,021,066</u>	<u>233,147</u>	<u>1,254,213</u>	<u>212,540</u>
<b>Current Liabilities (payable from restricted assets)</b>				
Current portion of revenue bonds	-	380,000	380,000	-
Accrued interest	-	238,926	238,926	-
Total current liabilities (payable from restricted assets)	<u>-</u>	<u>618,926</u>	<u>618,926</u>	<u>-</u>
<b>Noncurrent Liabilities</b>				
Payable from restricted assets:				
Customer deposits	171,194	5,500	176,694	-
Revenue bonds (net of current portion, unamortized premiums and discounts, and deferred amount on refunding)	-	11,913,775	11,913,775	-
Total noncurrent liabilities	<u>171,194</u>	<u>11,919,275</u>	<u>12,090,469</u>	<u>-</u>
Total liabilities	<u>1,192,260</u>	<u>12,771,348</u>	<u>13,963,608</u>	<u>212,540</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	9,147,196	8,812,395	17,959,591	1,826,454
Restricted for sewage service covenants	-	168,257	168,257	-
Restricted for revenue bond indentures	-	2,416,859	2,416,859	-
Restricted for MPPA energy expenses	2,103,499	-	2,103,499	-
Unrestricted	6,847,253	5,080,077	11,927,330	904,139
Total net assets	<u>18,097,948</u>	<u>16,477,588</u>	<u>34,575,536</u>	<u>2,730,593</u>
Total liabilities and net assets	<u>\$ 19,290,208</u>	<u>\$ 29,248,936</u>	<u>\$ 48,539,144</u>	<u>\$ 2,943,133</u>
Total net assets (from above)			\$ 34,575,536	
Adjustments to reflect the consolidation of internal service fund activities and the elimination of overhead charges			<u>636,833</u>	
Net assets of business-type activities			<u>\$ 35,212,369</u>	

See accompanying notes to the basic financial statements.

**CITY OF PETOSKEY**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended December 31, 2004**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals Current Year	
<b>Operating revenues</b>				
Charges for services	\$ 7,994,495	\$ 4,059,414	\$ 12,053,909	\$ 2,989,953
<b>Operating expenses</b>				
Purchased power	4,815,673	-	4,815,673	-
Personal services	370,505	383,726	754,231	63,611
Contractual services	707,745	1,488,126	2,195,871	2,586,779
Supplies	4,402	15,565	19,967	101,743
Materials	193,839	278,879	472,718	-
Heat, light and power	-	300,173	300,173	-
Depreciation	392,222	707,730	1,099,952	283,121
Rent	21,000	41,408	62,408	-
Total operating expenses	6,505,386	3,215,607	9,720,993	3,035,254
Operating income (loss)	1,489,109	843,807	2,332,916	(45,301)
<b>Nonoperating revenues</b>				
Interest	242,147	117,160	359,307	14,752
Rent	182,555	-	182,555	-
Sewage service covenant	-	79,940	79,940	-
Construction	8,420	23,534	31,954	-
Miscellaneous	15,134	-	15,134	-
Total nonoperating revenues	448,256	220,634	668,890	14,752
<b>Nonoperating expenses</b>				
Personal services	21,104	1,999	23,103	-
Contractual services	53,480	-	53,480	-
Supplies	18,824	-	18,824	-
Materials	4,451	10,000	14,451	-
Heat, light and power	24,173	-	24,173	-
Interest	-	601,364	601,364	-
Depreciation	21,989	-	21,989	-
Amortization	-	9,250	9,250	-
Other expenses	-	250	250	-
Total nonoperating expenses	144,021	622,863	766,884	-
Total nonoperating revenues (expenses)	304,235	(402,229)	(97,994)	14,752
Income (loss) before operating transfers and capital contributions	1,793,344	441,578	2,234,922	(30,549)
<b>Other financing sources (uses)</b>				
Operating transfers out	(370,000)	-	(370,000)	-
<b>Capital contributions</b>	39,532	214,923	254,455	-
<b>Change in net assets</b>	1,462,876	656,501	2,119,377	(30,549)
<b>Total net assets - beginning</b>	16,635,072	15,821,087	32,456,159	2,761,142
<b>Total net assets - ending</b>	\$ 18,097,948	\$ 16,477,588	\$ 34,575,536	\$ 2,730,593
<b>Adjustment to reflect the consolidation of internal service fund activities and the elimination of overhead charges</b>			636,833	
<b>Total net assets - ending (business-type activities)</b>			\$ 35,212,369	

See accompanying notes to financial statements.

**CITY OF PETOSKEY**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2004**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Electric System	Water and Sewer System	Totals Current Year	
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 7,970,424	\$ 4,103,436	\$ 12,073,860	\$ 3,182,137
Cash payments to suppliers for goods and services	(4,598,412)	(1,441,164)	(6,039,576)	(2,567,903)
Cash payments to employees for services	(382,391)	(392,117)	(774,508)	(66,575)
Cash payments to other funds for services	(556,612)	(696,635)	(1,253,247)	-
Net cash provided (used) by operating activities	2,433,009	1,573,520	4,006,529	547,659
<b>Cash flows from non-capital financing activities</b>				
Operating transfers-out to other funds	(370,000)	-	(370,000)	-
Increase (decrease) in customer deposits	26,206	-	26,206	-
Net cash provided (used) by non-capital financing activities	(343,794)	-	(343,794)	-
<b>Cash flows from capital and related financing activities</b>				
Acquisition and construction of capital assets	(2,254,231)	(41,159)	(2,295,390)	(313,363)
Principal paid on revenue bonds and contracts payable	-	(385,000)	(385,000)	-
Interest paid on revenue bonds and contracts payable	-	(579,447)	(579,447)	-
Capital contributed by customers	39,532	214,923	254,455	-
Net cash provided (used) by rental, construction and miscellaneous non-operating activities	84,077	91,225	175,302	-
Net cash provided (used) for capital and related financing activities	(2,130,622)	(699,458)	(2,830,080)	(313,363)
<b>Cash flows from investing activities</b>				
Purchase of investments (net)	(1,000,000)	(599,500)	(1,599,500)	-
Interest received	148,262	108,355	256,617	14,752
Net cash provided (used) from investing activities	(851,738)	(491,145)	(1,342,883)	14,752
Net increase (decrease) in cash	(893,145)	382,917	(510,228)	249,048
<b>Cash, beginning</b>	4,959,745	4,846,631	9,806,376	791,596
<b>Cash, ending</b>	\$ 4,066,600	\$ 5,229,548	\$ 9,296,148	\$ 1,040,644
<b>Classified as:</b>				
Current assets	\$ 3,895,406	\$ 2,638,932	\$ 6,534,338	\$ 1,040,644
Restricted assets	171,194	2,590,616	2,761,810	-
<b>Totals</b>	\$ 4,066,600	\$ 5,229,548	\$ 9,296,148	\$ 1,040,644

See accompanying notes to the basic financial statements.

**CITY OF PETOSKEY**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**(Continued)**  
**For the Year Ended December 31, 2004**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
	<u>Electric System</u>	<u>Water and Sewer System</u>	<u>Totals Current Year</u>	
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	<u>\$ 1,489,109</u>	<u>\$ 843,807</u>	<u>\$ 2,332,916</u>	<u>\$ (45,301)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	392,222	707,730	1,099,952	283,121
(Increase) decrease in accounts receivable	(24,071)	(13,481)	(37,552)	-
(Increase) decrease in inventory	(16,380)	(29,278)	(45,658)	(1,268)
(Increase) decrease in due from other funds	27,843	-	27,843	183,223
(Increase) decrease in due from component units	-	-	-	8,961
Increase (decrease) in accounts payable	579,609	25,520	605,129	124,180
Increase (decrease) in accrued expenses	3,562	3,382	6,944	(116)
Increase (decrease) in due to other funds	(21,099)	(21,663)	(42,762)	(5,141)
Increase (decrease) in due to other governmental units	2,214	57,503	59,717	-
Total adjustments	<u>943,900</u>	<u>729,713</u>	<u>1,673,613</u>	<u>592,960</u>
Net cash provided (used) by operating activities	<u>\$ 2,433,009</u>	<u>\$ 1,573,520</u>	<u>\$ 4,006,529</u>	<u>\$ 547,659</u>

**CITY OF PETOSKEY**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**December 31, 2004**

	Employees Retirement Trust Fund	Library Endowment Trust Fund	Agency Funds
<b><u>Assets</u></b>			
Cash	\$ -	\$ 79,304	\$ 2,449,737
Investments	167,160	-	-
Receivables:			
Taxes	-	-	4,763,042
Total assets	167,160	79,304	7,212,779
<b><u>Liabilities and Net Assets</u></b>			
<b>Liabilities</b>			
Accounts payable	-	297	17,061
Due to other funds	-	-	542,176
Due to component unit	-	-	78,159
Due to other governmental units	-	-	6,575,383
Total liabilities	-	297	7,212,779
<b>Net Assets</b>			
Held in trust for pension benefits and other purposes	\$ 167,160	\$ 79,007	\$ -



CITY OF PETOSKEY  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended December 31, 2004

	Employees Retirement Trust Fund	Library Endowment Trust Fund
<b><u>Additions</u></b>		
Contributions		
Employer	\$ 13,000	\$ -
Private donations	-	12,187
Total contributions	13,000	12,187
Net investment earnings		
Interest and unrealized gains/losses	5,419	1,931
Total additions	18,419	14,118
<b><u>Deductions</u></b>		
Miscellaneous expenses	-	52,274
Administrative expenses	35	-
Total deductions	35	52,275
<b>Change in net assets</b>	18,384	(38,157)
<b>Net assets - beginning of year</b>	148,776	117,164
<b>Net assets - end of year</b>	<u>\$ 167,160</u>	<u>\$ 79,007</u>

**CITY OF PETOSKEY**  
**Statement of Net Assets**  
**Component Units**  
**December 31, 2004**

	Library	TIFA	Downtown Management/ Parking	Total
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash	\$ 879,693	\$ 328,479	\$ 82,364	\$ 1,290,536
Receivables:				
Taxes	-	68,596	-	68,596
Due from fiduciary fund	78,159	-	-	78,159
Due from primary government	31,872	-	8,700	40,572
Total current assets	989,724	397,075	91,064	1,477,863
<b>Noncurrent Assets</b>				
Deferred charges	40,913	-	-	40,913
Capital assets	6,576,158	260,033	-	6,836,191
Less: accumulated depreciation	(960,445)	(13,002)	-	(973,447)
Total noncurrent assets	5,656,626	247,031	-	5,903,657
Total assets	<u>\$ 6,646,350</u>	<u>\$ 644,106</u>	<u>\$ 91,064</u>	<u>\$ 7,381,520</u>
<b><u>Liabilities and Net Assets</u></b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 189,718	\$ 79	\$ 20,380	\$ 210,177
Accrued expenses	4,890	-	-	2,890
Accrued interest	40,906	-	-	40,906
Due to primary government	-	1,852	-	1,852
Bonds payable, due within one year	50,000	-	-	50,000
Total current liabilities	285,514	1,931	20,380	305,825
<b>Noncurrent Liabilities</b>				
Bonds payable, net	4,164,133	-	-	4,164,133
Total liabilities	4,449,647	1,931	20,380	4,471,958
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,365,713	247,031	-	1,612,744
Restricted for:				
TIFA expenses	-	395,144	-	395,144
Unrestricted	830,990	-	70,684	901,674
Total net assets	2,196,703	642,175	70,684	2,909,562
Total liabilities and net assets	<u>\$ 6,646,350</u>	<u>\$ 644,106</u>	<u>\$ 91,064</u>	<u>\$ 7,381,520</u>

See accompanying notes to the basic financial statements. 28

**CITY OF PETOSKEY**  
**Statement of Activities**  
**Component Units**  
**For the Year Ended December 31, 2004**

Functions/Programs Component Units:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Library	TIFA	Downtown Management/ Parking	Total
Library	\$ 995,750	\$ 63,027	\$ 28,000	\$ (750,644)	\$ -	\$ -	\$ (750,644)
TIFA	43,978	-	-	-	(43,978)	-	(43,978)
Downtown Management/Parking	238,026	-	-	-	-	61,932	61,932
Total component units	\$ 1,277,754	\$ 63,027	\$ 28,000	(750,644)	(43,978)	61,932	(732,690)
General revenues:							
Property taxes				764,727	184,566	-	949,293
Interest and investment earnings				52,432	7,417	1,462	61,311
Transfers				-	-	(136,022)	(136,022)
Total general revenues and transfers				817,159	191,983	(134,560)	874,582
<b>Change in Net Assets</b>				66,515	148,005	(72,628)	141,892
<b>Net Assets - beginning of year</b>				2,130,188	494,170	143,312	2,767,670
<b>Net Assets - end of year</b>				\$ 2,196,703	\$ 642,175	\$ 70,684	\$ 2,909,562

**CITY OF PETOSKEY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Petoskey was incorporated November 4, 1924, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the City of Petoskey:

**REPORTING ENTITY**

These financial statements present the City (the primary government) and its component units. As defined by GASBS No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Blended Component Unit**

City of Petoskey Building Authority – The City of Petoskey Building Authority is governed by a three member board appointed by the City of Petoskey. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to provide financing for the construction of buildings, parking lots, recreational facilities and to acquire the necessary sites for such facilities. Separate financial statements for the City of Petoskey Building Authority may be obtained by contacting the City's Director of Finance, 101 East Lake Street, Petoskey, Michigan 49770.

**Discretely Presented Component Units**

Tax Increment Finance Authority – The Tax Increment Finance Authority, which was established pursuant to the provisions of Public Act 450 of 1980, as amended, is governed by an eight person board appointed by the City Council. The Authority may issue debt subject to limitations set forth in the Act and is funded by a specified annual property tax capture of a portion of all units' levies which may only be used for activities within the tax increment finance district. Separate financial statements for the Tax Increment Finance Authority are not issued.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Discretely Presented Component Units – Continued

Library - The City Library, which was established pursuant to the provisions of Public Act 164 of 1877, as amended, and City charter as adopted on August 7, 1984, is governed by a five person commission appointed by the mayor. The commission may not issue debt and the tax levy is subject to approval by the City Council. Separate financial statements for the City Library are not issued.

Downtown Management Board (Downtown Management/Parking) – The Downtown Management Board was established in February of 1994 pursuant to the provisions of Public Act 120 of 1961. By a resolution dated February 1, 2000, responsibilities for operating and maintaining the City's downtown area parking system and facilities were transferred to the Downtown Management Board. Separate financial statements for the Downtown Management Board are not issued.

#### **BASIC FINANCIAL STATEMENTS – OVERVIEW**

The City of Petoskey's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

#### **BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide Statement of Net Assets, both the governmental and business-type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

##### Governmental Funds

The measurement focus of the governmental funds in the Fund Financial Statements is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

**General Fund** – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**The Right-of-Way Improvement Fund** – The Right-of-Way Improvement Fund is used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds or trust funds.

**Major and Local Street Funds** – To account for the operations of the street department. Primary financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

In addition, the City reports the following non-major governmental funds:

##### Special Revenue Funds

**General Street Fund** – To account for the operations of the street department. Primary financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

**Downtown Management Fund** – To account for services and programs provided to the Central Business District. Financing is provided by an annual special assessment on property located within the District, which may only be used for such activities.

#### Debt Service Funds

The **Special Assessment, Building Authority Downtown Improvement and Building Authority Refunding Bonds Debt Funds** account for the payment of interest and principal on long-term bonds.

#### Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary funds of the City:

**Electric Fund** – The Electric Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

**Water and Sewer Fund** – The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

In addition, the City reports the following non-major proprietary funds:

**Motor Vehicle and Equipment Fund** – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments.

**Employee Fringe Benefit Fund** – The Employee Fringe Benefit Fund is an internal service fund. This fund accounts for City employee fringe benefits required by employment agreements and federal and state law.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing/delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### Fiduciary Funds

The fiduciary funds are used to account for assets held by the City in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. All trust funds employ the same economic resources measurement focus and accrual basis of accounting as do proprietary funds. Agency funds use the accrual basis of accounting, however, report only assets and liabilities.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

**Library Endowment Trust Fund** – The Library Endowment Trust Fund is an expendable trust fund. This fund accounts for donations received by the City as trustee and the related disposition of such amounts in accordance with the various trust agreements.

**Employees Retirement Trust Fund** – The Employees Retirement Trust Fund accounts for the accumulation of resources for pension benefit payments to qualified management employees.

**Agency Fund** – The Agency Fund accounts for the collection and payments of property tax levies and payroll withholdings.

#### BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled Water and Sewer and Electric Fund utility service receivables are recorded at year-end.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

##### Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

##### Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Special Revenue Funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased. Fund balance has been reserved for inventory in governmental funds.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

##### Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

##### Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	5,000
Buildings	50,000
Infrastructure	100,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Streets, Curbs and Gutters	10 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years

##### Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

##### Compensated Absences (Personal, Vacation and Sick Time)

All employees are entitled to 56 hours of personal time starting on December 1. The City reimburses all employees for any unused portion, on an annual basis. Vacation days not used during the year may not be accumulated. Unpaid sick time accrued represents sick time accumulated before December 1, 1990 and payable to eligible employees on termination. Due to contract years differing from the City's fiscal year, unpaid vacation time represents unused, but not accumulated, vacation time.

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are provided for on a timely basis by accrual, when incurred by all funds, in the Employee Fringe Benefit Fund (a proprietary fund using the accrual basis of accounting). All vacation, sick pay, and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when a payment is made to the Fringe Benefit Fund.

##### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### COMPARATIVE DATA

Comparative data for the prior year is not included in the City's financial statements.

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the City except for the pension trust fund and the agency fund. Budgetary control is legally maintained at the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in November, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures/expenses and the means of financing them.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY –CONTINUED

2. A public hearing is conducted at City Hall to obtain taxpayer comments.
3. Prior to January 1, the fund budgets are legally enacted through passage of resolutions.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the City Council.
7. Encumbrances, which are commitments related to unperformed contracts for goods or services, lapse at year end and are re-appropriated as part of the subsequent year's budget.

#### **Excess of Expenditures Over Appropriations in Budgeted Funds**

The City is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. During the year, the City incurred expenditures which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Appropriation</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
General Street Fund	\$ 465,900	\$ 487,206	\$ (21,306)

### NOTE 3: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 3: CASH AND INVESTMENTS – CONTINUED

### Cash Deposits

At December 31, 2004, the carrying amount of the City's deposits was \$17,621,559 and the bank balance was \$18,410,506.

Pooling of Cash - The City pools cash to maximize its investment return.

<u>Fund</u>	<u>Pooled Cash</u>
<b>Primary Government</b>	
General	\$ 1,454,639
Major street	554,985
Local street	708,018
Right-of-way improvement	553,346
Electric system	1,988,180
Water and sewer system	5,229,548
Other nonmajor governmental funds	193,252
Internal service funds	1,040,644
Total	11,722,612
<b>Component Units</b>	
Library	879,568
Other nonmajor component units	328,479
Total	1,208,047
<b>Fiduciary Funds</b>	
Library endowment trust fund	79,304
Agency funds	2,449,737
Total	2,529,041
Total pooled cash	15,459,700
Cash not held in pooled accounts:	
Primary government	2,079,370
Component units	82,489
Total cash	\$ 17,621,559
Unrestricted cash (primary government)	\$ 11,040,172
Unrestricted cash (component units)	1,290,536
Unrestricted cash (fiduciary funds)	2,449,737
Restricted cash (primary government)	2,761,810
Restricted cash (component units)	-
Restricted cash (fiduciary funds)	79,304
Total cash	\$ 17,621,559

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 3: CASH AND INVESTMENTS - CONTINUED

#### Federal Depository Insurance

Of the above balance in cash, \$200,000 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. The City may experience significant fluctuations in deposit balances through the year.

#### Investments

Investments are stated at market value. Investments held at a financial institution can be categorized according to three levels of risk. The three levels of risk are:

- |            |  |
|------------|--|
| Category 1 | Investments that are insured, registered or held by the entity or by its agent in the City's name.                       |
| Category 2 | Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name. |
| Category 3 | Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the City's name.     |

The City of Petoskey has mutual fund investments with the ICMA Retirement Corporation for the Employees Retirement Trust Fund. The nature of the mutual funds does not allow for risk categorization, which is in accordance with GASB Statement No. 3. At December 31, 2004 the market value was \$167,160.

The City also has investments in negotiable certificates of deposits composed of U.S. treasuries and government agency bonds, with a market value of \$4,547,685 at December 31, 2004. These investments are classified by risk level as Category 3.

The City has a certificate of deposit with a market value of \$99,000 at December 31, 2004. This investment is classified by risk level as Category 1.

The City has restricted investments held within the Municipal Competitive Trust, with a market value of \$2,103,499 at December 31, 2004. These investments are classified by risk level as Category 3.

### NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 4: PROPERTY TAXES - CONTINUED

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$10 per \$1,000 of taxable valuation for general governmental services other than the payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on general obligation long-term debt. The City is also permitted by charter to levy taxes up to \$5 per \$1,000 of taxable valuation for right-of-way improvements. The City is permitted by state law to levy up to \$1 per \$1,000 of taxable valuation for the public library and \$2 per \$1,000 of taxable valuation for garbage disposal. If approved by a majority of the voters, the City may increase the tax levied by an additional \$1 per \$1,000 of taxable valuation for the public library. The 2004 State taxable valuation of the City of Petoskey totaled \$476,999,459.

The tax rate for the year ended December 31, 2004, was as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General governmental services	7.6707 per \$1,000
Right-of-way improvements	3.9502 per \$1,000
Library	.8600 per \$1,000
Library (additional, approved by voters)	.9541 per \$1,000
Garbage disposal	.5000 per \$1,000

## NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The interfund balances within the primary government are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 366,299	\$ 26,719
Right-of-Way Improvement	174,669	-
Major Street Fund	7,823	1,283
Local Street Fund	6,063	710
Electric Fund	-	2,493
Water and Sewer Fund	-	2,368
Other Nonmajor Gov. Funds	1,208	13,887
Internal Service Funds	34,098	524
Fiduciary Funds	-	542,176
	<u>\$ 590,160</u>	<u>\$ 590,160</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 5: INTERFUND RECEIVABLES AND PAYABLES – CONTINUED

The interfund balances between the primary government and the component units are as follows:

	Interfund Receivable	Interfund Payable
Library Fund	\$ 106,159	\$ 3,423
Other Nonmajor Comp. Units	-	1,852
General Fund	-	28,000
Major Street Fund	1,852	-
Internal Service Funds	3,423	-
Fiduciary Funds	-	78,159
	<u>\$ 111,434</u>	<u>\$ 111,434</u>

The interfund balances are mainly for material and inventory usage, building rent, fringe benefits, and equipment rent.

## NOTE 6: INTERFUND TRANSFERS

Operating transfers within the primary government are as follows:

	Transfer In	Transfer Out
General Fund	\$ -	\$ 138,000
Right-of-Way Imp. Fund	-	1,456,000
Major Street Fund	500,000	-
Local Street Fund	900,000	-
Electric Fund	-	370,000
Other Nonmajor Govt. Funds	564,000	-
	<u>\$ 1,964,000</u>	<u>\$ 1,964,000</u>

Operating transfers between the primary government and the component units are as follows:

	Transfer In	Transfer Out
Other Nonmajor Comp. Units	\$ -	\$ 136,022
General Fund	56,022	-
Other Nonmajor Govt. Funds	80,000	-
	<u>\$ 136,022</u>	<u>\$ 136,022</u>

The operating transfers are mainly for street improvements, debt service and general City operations.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7: CAPITAL ASSETS**

Capital asset activity of the City's primary government for the current year was as follows:

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2004</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 1,887,069	\$ -	\$ -	\$ 1,887,069
Capital assets being depreciated:				
Land improvements	403,452	118,911	-	522,363
Buildings	3,938,590	4,256	-	3,942,846
Equipment	5,643,973	313,363	-	5,957,336
Infrastructure	13,979,898	767,002	-	14,746,900
Subtotal	<u>23,965,913</u>	<u>1,203,532</u>	<u>-</u>	<u>25,169,445</u>
Less accumulated depreciation:				
Land improvements	(129,947)	(27,236)	-	(157,183)
Buildings	(1,430,076)	(99,512)	-	(1,529,588)
Equipment	(3,430,117)	(320,033)	-	(3,750,150)
Infrastructure	(5,024,432)	(559,196)	-	(5,583,628)
Subtotal	<u>(10,014,572)</u>	<u>(1,005,977)</u>	<u>-</u>	<u>(11,020,549)</u>
Net capital assets being depreciated	<u>13,951,341</u>	<u>197,555</u>	<u>-</u>	<u>14,148,896</u>
Governmental activities net capital assets	<u>\$ 15,838,410</u>	<u>\$ 197,555</u>	<u>\$ -</u>	<u>\$ 16,035,965</u>



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

**NOTE 7: CAPITAL ASSETS – CONTINUED**

	<u>Balance January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2004</u>
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 837,856	\$ -	\$ -	\$ 837,856
Capital assets being depreciated:				
Buildings	16,856,993	41,159	-	16,898,152
Utility system improvements	23,775,188	2,254,230	-	26,029,418
Equipment	703,723	-	-	703,723
Subtotal	<u>41,335,904</u>	<u>2,295,389</u>	<u>-</u>	<u>43,631,293</u>
Less accumulated depreciation:				
Buildings	(4,691,109)	(452,974)	-	(5,144,083)
Utility system improvements	(7,460,881)	(652,627)	-	(8,113,508)
Equipment	<u>(665,627)</u>	<u>(16,340)</u>	<u>-</u>	<u>(681,967)</u>
Subtotal	<u>(12,817,617)</u>	<u>(1,121,941)</u>	<u>-</u>	<u>(13,939,558)</u>
Net capital assets being depreciated	<u>28,518,287</u>	<u>1,173,448</u>	<u>-</u>	<u>29,691,735</u>
Business-type activities net capital assets	<u>\$ 29,356,143</u>	<u>\$ 1,173,448</u>	<u>\$ -</u>	<u>\$ 30,529,591</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 7: CAPITAL ASSETS – CONTINUED

Capital asset activity of the City's component units for the current year was as follows:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
<b>Component Units</b>				
Capital assets being depreciated:				
Buildings	\$ 1,691,224	\$ 3,591,448	\$ -	\$ 5,282,672
Equipment	177,224	455,411	-	632,635
Books	877,743	43,141	-	920,884
Subtotal	2,746,191	4,090,000	-	6,836,191
Less accumulated depreciation:				
Buildings	(184,114)	(138,130)	-	(322,244)
Equipment	(88,612)	(31,632)	-	(120,244)
Books	(438,871)	(92,088)	-	(530,959)
Subtotal	(711,597)	(261,850)	-	(973,447)
Component units' net capital assets	<u>\$ 2,034,594</u>	<u>\$ 3,828,150</u>	<u>\$ -</u>	<u>\$ 5,862,744</u>

Depreciation expense was charged to the primary government as follows:

### Governmental Activities

Unallocated	\$ 722,856
Internal service fund capital assets consolidated with the governmental activities	283,121
Total governmental activities	<u>\$ 1,005,977</u>

### Business-type Activities

Water and sewer	\$ 707,730
Electric	414,211
Total business-type activities	<u>\$ 1,121,941</u>

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 7: CAPITAL ASSETS – CONTINUED

### Construction Commitments

The City has active construction projects at year-end. The projects include:

	Project Estimates	Expended to Dec. 31, 2004	Committed
Library construction	\$ 4,145,170	\$ 3,991,279	\$ 153,891
Downtown signs	109,129	60,000	49,129
Charlevoix Ave. electric work	1,220,553	1,071,616	148,937
Bayfront resource center restrooms	78,200	-	78,200
	<u>\$ 5,553,052</u>	<u>\$ 5,122,895</u>	<u>\$ 430,157</u>

At year-end, all construction in progress amounts are capitalized.

### Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at December 31, 2004 are summarized as follows:

	Enterprise	Internal Service
Land	\$ 837,856	\$ -
Buildings	16,898,152	11,011
Utility system improvements	26,029,418	-
Equipment	703,723	5,219,099
Total	44,469,149	5,230,110
Less: accumulated dep.	<u>(13,939,558)</u>	<u>(3,403,656)</u>
Net	<u>\$ 30,529,591</u>	<u>\$ 1,826,454</u>

## NOTE 8: CAPITAL LEASE

On June 10, 2003, the City entered into a lease agreement as lessee for financing the acquisition of parking meters. The lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The lease/purchase is payable over a two year period at the rate of 2.59%, in equal installments of \$56,021 per year, through the year 2005.

Assets in the amount of \$107,835 were recorded within the Governmental Activities section of the government-wide Statement of Net Assets. The City's obligation is currently recorded as a short-term obligation within the Governmental Activities section of the government-wide Statement of Net Assets.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 8: CAPITAL LEASE – CONTINUED

The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2004 were as follows:

<u>Year Ending Dec. 31</u>	<u>Governmental Activities</u>
2005	\$ 56,021
Less: amount representing interest	<u>(2,104)</u>
Present value of minimum lease payments	<u>\$ 53,917</u>

### NOTE 9: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In complying with the amended Section 457 requirements, these assets are now for the exclusive benefit of participants and not subject to the claims of the City's general creditors. As such, they are no longer included in an agency fund of the City.

### NOTE 10: DEFINED CONTRIBUTION PLAN

The City provides pension benefits for management employees as designated by City Council through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The City's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The City's contributions were calculated using the eligible base salary amount of \$86,250. As established by City Council and governed by Federal regulations, the City made the required 15.12% contribution. Contributions for the year totaled \$13,000.

At December 31, 2004, the City had \$167,160 within the Employees Retirement Trust Fund.

### NOTE 11: DEFINED BENEFIT PENSION PLAN

#### Plan Description

The City of Petoskey participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Petoskey. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 11: DEFINED BENEFIT PENSION PLAN – CONTINUED

#### Funding Policy

There are no contribution requirements for members of the City of Petoskey. The City is required to contribute all amounts necessary to fund the system using the actuarial basis specified by statute. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

#### Annual Pension Cost

For the year ended 2004, the City's required contributions were \$454,518, while their actual contributions were \$517,683. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.50% per year. Both (a) and (b) included an inflation component of 4.50%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30 year period.

#### Three-Year Trend Information for the City of Petoskey

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12-31-02	\$ 349,942	100%	-
12-31-03	404,128	100%	-
12-31-04	454,518	100%	-

Additional trend information may be found within the Required Supplemental Information section of the financial statements.

### NOTE 12: OTHER POST-EMPLOYMENT BENEFITS

The City provides post-employment benefits of health insurance to eligible employees.

The City pays \$1,200 per year for each eligible retiree. For the year ended December 31, 2004, there were 40 participants. The City's actual expense was \$45,000.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 13: LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
Bonds and notes payable:					
General obligation debt	\$ 1,355,000	\$ -	\$ (205,000)	\$ 1,150,000	\$ 210,000
Other liabilities:					
Capital lease	107,835	-	(53,918)	53,917	53,917
Compensated absences	128,443	2,945	(73,197)	58,191	-
Landfill postclosure costs	285,000	-	(195,000)	90,000	-
Total governmental activities long-term liabilities	<u>\$ 1,876,278</u>	<u>\$ 2,945</u>	<u>\$ (527,115)</u>	<u>\$ 1,352,108</u>	<u>\$ 263,917</u>
<b>Business-type Activities</b>					
Bonds and notes payable:					
Revenue obligation debt	<u>\$ 12,955,000</u>	<u>\$ -</u>	<u>\$ (385,000)</u>	<u>\$ 12,570,000</u>	<u>\$ 380,000</u>
<b>COMPONENT UNIT</b>					
General obligation debt	<u>\$ 4,300,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 4,250,000</u>	<u>\$ 50,000</u>

Long-term liabilities payable at December 31, 2004 is composed of the following individual issues:

### General Obligation (Governmental Activities):

\$480,000, 1996 Special Assessment bonds with a final installment of \$55,000 due October 1, 2005, interest at 5.20 percent. \$ 55,000

\$965,000, 1999 City of Petoskey Building Authority Refunding serial bonds due in annual installments of \$95,000 to \$105,000 through October 1, 2009, interest at 4.50 to 4.75 percent. 500,000

\$800,000, 1999 Building Authority Downtown Improvement bonds due in annual installments of \$50,000 to \$75,000 through October 1, 2014, interest at 4.50 to 5.00 percent. 595,000

Total governmental activities general obligation debt 1,150,000

Capital lease 53,917

Compensated absences 58,191

Estimated liability for landfill post closure costs 90,000

Total governmental activities long-term liabilities \$ 1,352,108

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 13: LONG-TERM DEBT – CONTINUED

### Revenue Obligation (Business-type Activities):

\$7,500,000, 2001 Water and Sewer bonds due in annual installments of \$50,000 to \$600,000 through February 1, 2026, interest at 4.00 to 5.00 percent. \$ 7,400,000

\$5,505,000, 2002 Water and Sewer Refunding bonds due in annual installments of \$320,000 to \$475,000 through February 1, 2017, interest at 3.00 to 5.25 percent. 5,170,000

Total business-type activities revenue obligation debt \$ 12,570,000

### General Obligation (Component Unit)

\$4,300,000 2003 Building Authority Library Improvement bonds due in annual installment of \$50,000 to \$300,000 through October 1, 2028, interest at 2.50 to 4.40 percent. \$ 4,250,000

The annual requirements to amortize all general and revenue obligation bonds outstanding, as of December 31, 2004, are as follows:

### Annual Requirements to Amortize Outstanding Bonds December 31, 2004

Year Ending December 31	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	210,000	54,789	380,000	567,472	50,000	163,625
2006	155,000	44,952	370,000	555,722	50,000	162,375
2007	150,000	37,901	465,000	542,173	100,000	161,125
2008	150,000	30,925	560,000	524,124	100,000	158,625
2009	150,000	23,876	555,000	503,257	125,000	156,125
2010 - 2014	335,000	52,000	3,225,000	2,141,279	700,000	722,936
2015 - 2019	-	-	3,215,000	1,277,567	925,000	582,751
2020 - 2024	-	-	2,600,000	647,625	1,100,000	387,975
2025 - 2029	-	-	1,200,000	60,000	1,100,000	125,400
Total	<u>\$ 1,150,000</u>	<u>\$ 244,443</u>	<u>\$ 12,570,000</u>	<u>\$ 6,819,219</u>	<u>\$ 4,250,000</u>	<u>\$ 2,620,937</u>

## NOTE 14: LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

An agreement with the State of Michigan requires that the City of Petoskey perform monitoring functions at the landfill site for 30 years after closure. A liability is being recognized based on the future post closure costs that will be incurred over the 18 years remaining on the agreement. The estimated total current cost of the landfill post closure care, \$90,000, is based on the amount that would be paid if the services to monitor the landfill were acquired as of December 31, 2004. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 15: RESERVED FUND BALANCES/RESTRICTED NET ASSETS

#### Major Governmental Funds

Reserved for marina – The General Fund has \$339,139 reserved for marina operations and improvements.

Reserved for refuse – The General Fund has \$37,156 reserved for refuse collection expenditures.

#### Nonmajor Governmental Funds

Reserved for debt service – The Debt Service Funds have \$77,494 reserved for debt service and related costs.

Reserved for inventory – The General Street Fund has \$75,854 reserved for inventory.

#### Major Proprietary Funds

Restricted for MPPA energy expenses – The Electric Fund has \$2,103,499 restricted for MPPA energy expenses.

Restricted for revenue bond indentures – In accordance with revenue bond indentures, the Water and Sewer System Fund has \$2,416,859 of its net assets restricted for this specific purpose.

Restricted for sewage service agreement covenants – The City has \$168,257 restricted for repair and replacement of sewage treatment facilities.

#### Fiduciary Funds

Restricted for pension benefits and other purposes – The Employees Retirement Trust Fund and the Library Endowment Trust Fund have \$167,160 and \$79,007, respectively, restricted for employee pension benefits and library costs.

#### Component Units

Restricted for Tax Increment Finance Authority – The Tax Increment Finance Authority has \$395,144 restricted for use within the TIFA district.

### NOTE 16: COMMITMENTS

#### Insurance Commitments

The City self-insures its workmen's compensation and unemployment compensation liabilities through their participation in workmen's compensation and unemployment compensation self-insurance groups.

#### Entitlement Commitments

During 1979 and 1982, the Michigan Public Power Agency (MPPA), of which the City is a member, acquired an ownership interest in the Consumers Power Campbell No. 3 plant, the Detroit Edison Belle River Unit and other related assets. During 2001, the MPPA, acquired an ownership interest in the CT Project No. 1.

The City's entitlement share of the Campbell No. 3 and Belle River unit generating capacities are 1470 (KW) and 4137 (KW), respectively. The City's entitlement share of the CT Project No. 1 generating capacity is 4,392 (KW).



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 16: COMMITMENTS – CONTINUED

The entitlements specify minimum annual payments on a "take-or-pay" basis for the generation and transmission capabilities of the units as follows:

Year Ending December 31	Campbell No. 3	Belle River Unit	CT Project No. 1	Total
2005	146,143	508,697	241,058	895,898
2006	146,376	508,602	241,077	896,055
2007	146,481	508,672	241,329	896,482
2008	146,446	508,608	241,091	896,145
2009	119,402	508,617	241,155	869,174
2010 - 2014	361,199	2,543,333	1,206,422	4,110,954
2015 - 2019	-	1,525,950	1,206,031	2,731,981
2020 - 2024	-	-	1,206,337	1,206,337
2025 - 2029	-	-	482,484	482,484
Total minimum payments	<u>\$ 1,066,047</u>	<u>\$ 6,612,479</u>	<u>\$ 5,306,984</u>	<u>\$ 12,985,510</u>

There is a possibility of refunds or subsidy payments to the City due to past fuel overcharges. However, since the amounts are unknown at this time, there are no provisions made in the financial statements.

### NOTE 17: CONTINGENCIES

The General Fund is contingently liable for the Water and Sewer System revenue bonds.

The General Fund is obligated only if revenues of the Water and Sewer System Fund would be insufficient to meet its debt service requirements.

The City is not obligated in any manner for the 1996 Special Assessment bonds, as principal and interest on the bonds shall be payable solely from the special assessment rolls, but will honor the debt in the event of default.

### NOTE 18: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF PETOSKEY**  
**Required Supplemental Information**  
**Defined Benefit Pension Plan**  
**Trend Information**  
**For the Year Ended December 31, 2004**

Schedule of Funding Progress  
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 11,175	\$ 12,748	\$ 1,573	88%	\$ 2,687	59%
12/31/02	11,351	13,983	2,632	81%	3,060	86%
12/31/03	12,032	15,316	3,284	79%	3,219	102%
12/31/04	*	*	*	*	*	*

\* Information not currently available.

Schedule of Employer Contributions  
(Dollar amounts in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/01	\$ 334,522	100%
12/31/02	349,942	100%
12/31/03	404,128	100%
12/31/04	454,518	100%

OTHER SUPPLEMENTAL INFORMATION

**CITY OF PETOSKEY**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**Special Revenue Funds**  
**December 31, 2004**

	<u>General Street</u>	<u>Downtown Management</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash	\$ 46,621	\$ 69,137	\$ 115,758
Receivables:			
Special assessments	-	32,608	32,608
Accounts	53,410	-	53,410
Due from other funds	-	1,208	1,208
Inventory, at cost	75,854	-	75,854
	<u>75,854</u>	<u>-</u>	<u>75,854</u>
Total assets	<u>\$ 175,885</u>	<u>\$ 102,953</u>	<u>\$ 278,838</u>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 17,030	\$ 3,757	\$ 20,787
Due to other funds	13,887	-	13,887
	<u>13,887</u>	<u>-</u>	<u>13,887</u>
Total liabilities	<u>30,917</u>	<u>3,757</u>	<u>34,674</u>
<b>Fund balances</b>			
Reserved for inventory	75,854	-	75,854
Unreserved	69,114	99,196	168,310
	<u>69,114</u>	<u>99,196</u>	<u>168,310</u>
Total fund balances	<u>144,968</u>	<u>99,196</u>	<u>244,164</u>
Total liabilities and fund balances	<u>\$ 175,885</u>	<u>\$ 102,953</u>	<u>\$ 278,838</u>

CITY OF PETOSKEY  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
Special Revenue Funds  
For the Year Ended December 31, 2004

	General Street	Downtown Management	Total
<b>Revenues</b>			
Special assessments	\$ -	\$ 57,109	\$ 57,109
Interest	3,882	2,150	6,032
Other	8,307	-	8,307
Total revenues	12,189	59,259	71,448
<b>Expenditures</b>			
Current:			
Public works	487,206	84,829	572,035
Excess (deficiency) of revenues over expenditures	(475,017)	(25,570)	(500,587)
<b>Other financing sources (uses)</b>			
Operating transfers in	370,000	-	370,000
<b>Net change in fund balances</b>	(105,017)	(25,570)	(130,587)
<b>Fund balances - beginning of year</b>	249,985	124,766	374,751
<b>Fund balances - end of year</b>	<u>\$ 144,968</u>	<u>\$ 99,196</u>	<u>\$ 244,164</u>

CITY OF PETOSKEY  
Combining Balance Sheet  
Nonmajor Governmental Funds  
Debt Service Funds  
December 31, 2004

	Special Assessment Bonds Debt	Building Authority Downtown Improvement Bonds Debt	Building Authority Refunding Bonds Debt	Total
<b>Assets</b>				
Cash	\$ 19,437	\$ 12,240	\$ 45,817	\$ 77,494
<b>Fund balances</b>				
Reserved for debt service	\$ 19,437	\$ 12,240	\$ 45,817	\$ 77,494

**CITY OF PETOSKEY**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Debt Service Funds**  
**For the Year Ended December 31, 2004**

	Special Assessment Bonds Debt	Building Authority Downtown Improvement Bonds Debt	Building Authority Refunding Bonds Debt	Total
<b>Revenues</b>				
Interest	\$ 562	\$ 195	\$ 836	\$ 1,593
<b>Expenditures</b>				
Principal	50,000	45,000	110,000	205,000
Interest and fiscal charges	5,710	30,778	28,270	64,758
Total expenditures	55,710	75,778	138,270	269,758
Excess (deficiency) of revenues over expenditures	(55,148)	(75,583)	(137,434)	(268,165)
<b>Other financing sources (uses)</b>				
Operating transfers in	56,000	-	138,000	194,000
Transfers from component units	-	80,000	-	80,000
Total other financing sources (uses)	56,000	80,000	138,000	274,000
<b>Net change in fund balances</b>	852	4,417	566	5,835
<b>Fund balances - beginning of year</b>	18,585	7,823	45,251	71,659
<b>Fund balances - end of year</b>	\$ 19,437	\$ 12,240	\$ 45,817	\$ 77,494



**CITY OF PETOSKEY**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**December 31, 2004**

	Motor Vehicle and Equipment	Employee Fringe Benefit	Total
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash	\$ 442,737	\$ 597,907	\$ 1,040,644
Due from other funds	-	34,098	34,098
Due from component units	-	3,423	3,423
Inventory	38,514	-	38,514
	<u>481,251</u>	<u>635,428</u>	<u>1,116,679</u>
Total current assets			
<b>Noncurrent assets</b>			
Capital assets	5,230,110	-	5,230,110
Less: accumulated depreciation	(3,403,656)	-	(3,403,656)
	<u>1,826,454</u>	<u>-</u>	<u>1,826,454</u>
Total noncurrent assets			
Total assets	<u><u>\$ 2,307,705</u></u>	<u><u>\$ 635,428</u></u>	<u><u>\$ 2,943,133</u></u>
<b><u>Liabilities and Fund Equity</u></b>			
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 53,539	\$ 99,537	\$ 153,076
Accrued wages	749	-	749
Accrued vacation and sick leave	-	58,191	58,191
Due to other funds	524	-	524
	<u>54,812</u>	<u>157,728</u>	<u>212,540</u>
Total current liabilities			
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,826,454	-	1,826,454
Unrestricted	426,439	477,700	904,139
	<u>2,252,893</u>	<u>477,700</u>	<u>2,730,593</u>
Total net assets			
Total liabilities and net assets	<u><u>\$ 2,307,705</u></u>	<u><u>\$ 635,428</u></u>	<u><u>\$ 2,943,133</u></u>

**CITY OF PETOSKEY**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended December 31, 2004**

	Motor Vehicle and Equipment	Employee Fringe Benefit	Total
<b>Operating revenues</b>			
Charges for services	\$ 870,426	\$ 2,119,527	\$ 2,989,953
<b>Operating expenses</b>			
Personal services	63,611	-	63,611
Contractual services	431,402	2,155,377	2,586,779
Supplies	101,743	-	101,743
Depreciation	283,121	-	283,121
Total operating expenses	879,877	2,155,377	3,035,254
Operating income (loss)	(9,451)	(35,850)	(45,301)
<b>Nonoperating revenues (expenses)</b>			
Interest	7,397	7,355	14,752
Change in net assets	(2,054)	(28,495)	(30,549)
Total net assets - beginning of year	2,254,947	506,195	2,761,142
Total net assets - end of year	\$ 2,252,893	\$ 477,700	\$ 2,730,593

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2004**

Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity October 1	Total Outstanding at December 31, 2004	Annual Interest Payable
May 1, 1996	\$ 480,000	5.20%	2005	\$ 55,000	\$ 2,860

1996 Special Assessment Bonds  
with governmental commitment

Call provision: There are no call provisions.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2004**

	<u>Date of Bonds</u>	<u>Amount of Bonds</u>	<u>Interest Rate</u>	<u>Date of Maturity October 1</u>	<u>Total Outstanding at December 31, 2004</u>	<u>Annual Interest Payable</u>
1999 City of Petoskey Building Authority Refunding Bonds	August 12, 1999	\$ 965,000	4.50%	2005	\$ 105,000	\$ 23,131
			4.55%	2006	105,000	18,405
			4.65%	2007	100,000	13,628
			4.70%	2008	95,000	8,978
			4.75%	2009	95,000	4,513
					<u>\$ 500,000</u>	<u>\$ 68,655</u>

**Call provision:**

The bonds maturing on or prior to October 1, 2008 are not subject to redemption prior to maturity. Bonds or portions of bonds maturing on or after October 1, 2009, are subject to redemption prior to maturity, at the option of the issuer, in such order as the issuer shall determine, on any interest payment date on or after October 1, 2008, in whole or in part in the amount designated by the issuer, in order of maturities selected by the issuer and by lot at par plus interest accrued to the redemption date.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2004**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity October 1	Total	
					Outstanding at December 31, 2004	Annual Interest Payable
1999 City of Petoskey Building Authority Downtown Improvement Bonds	August 12, 1999	\$ 800,000	4.50%	2005	\$ 50,000	\$ 28,798
			4.55%	2006	50,000	26,547
			4.65%	2007	50,000	24,273
			4.70%	2008	55,000	21,947
			4.75%	2009	55,000	19,363
			5.00%	2010	60,000	16,750
			5.00%	2011	65,000	13,750
			5.00%	2012	65,000	10,500
			5.00%	2013	70,000	7,250
			5.00%	2014	75,000	3,750
					<u>\$ 595,000</u>	<u>\$ 172,928</u>

Call provision: The bonds maturing on or prior to October 1, 2008 are not subject to redemption prior to maturity. Bonds or portions of bonds maturing on or after October 1, 2009, are subject to redemption prior to maturity, at the option of the issuer, in such order as the issuer shall determine, on any interest payment date on or after October 1, 2008, in whole or in part in the amount designated by the issuer, in order of maturities selected by the issuer and by lot at par plus interest accrued to the redemption date.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2004**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity February 1	Total				
					Outstanding at December 31, 2004	Annual Interest Payable			
2001 City of Petoskey Water and Sewer Bonds	June 1, 2001	\$ 7,500,000	4.000%	2005	\$ 50,000	\$ 349,724			
			4.000%	2006	50,000	347,724			
			4.000%	2007	100,000	344,724			
			4.000%	2008	200,000	338,724			
			4.000%	2009	200,000	330,724			
			4.000%	2010	200,000	322,724			
			4.100%	2011	200,000	314,624			
			4.375%	2012	200,000	306,149			
			4.375%	2013	300,000	295,212			
			5.000%	2014	300,000	281,150			
			5.000%	2015	300,000	266,150			
			4.700%	2016	300,000	251,600			
			4.700%	2017	400,000	235,150			
			4.750%	2018	400,000	216,250			
			4.750%	2019	400,000	197,250			
			4.750%	2020	400,000	178,250			
			4.750%	2021	500,000	156,875			
			5.000%	2022	500,000	132,500			
			5.000%	2023	600,000	105,000			
			5.000%	2024	600,000	75,000			
			5.000%	2025	600,000	45,000			
			5.000%	2026	600,000	15,000			
								\$ 7,400,000	\$ 5,105,504

Call provision: Bonds of this issue maturing in the years 2003 to 2011, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing in the year 2012 and thereafter may be redeemed at the option of the issuer, in such order as the issuer shall determine and within any maturity by lot, on any interest payment date on or after February 1, 2011 at par and accrued interest to the date fixed for redemption.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2004**

	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity February 1	Total	
					Outstanding at December 31, 2004	Annual Interest Payable
2002 City of Petoskey Water and Sewer Refunding Bonds	November 7, 2002	\$ 5,505,000	3.000%	2005	\$ 330,000	\$ 217,748
			3.000%	2006	320,000	207,998
			3.150%	2007	365,000	197,449
			3.500%	2008	360,000	185,400
			3.700%	2009	355,000	172,533
			3.900%	2010	395,000	158,263
			4.000%	2011	390,000	142,760
			4.100%	2012	385,000	127,067
			5.250%	2013	430,000	107,887
			5.250%	2014	425,000	85,443
			5.250%	2015	475,000	61,818
			5.250%	2016	470,000	37,012
			5.250%	2017	470,000	12,337
					<u>\$ 5,170,000</u>	<u>\$ 1,713,715</u>

Call provision: Bonds maturing prior to February 1, 2013 are not subject to redemption prior to maturity. Bonds maturing on or after February 1, 2013 are subject to redemption prior to maturity, at the option of the City, in such order as the City shall determine, on any interest payment date on or after August 1, 2012, in whole or in part in the amount designated by the City, in order of maturities selected by the City at par, plus interest accrued to the redemption date.

**CITY OF PETOSKEY**  
**Schedule of Bonded Indebtedness**  
**December 31, 2004**

2003 City of Petoskey Library Improvement Bonds	Date of Bonds	Amount of Bonds	Interest Rate	Date of Maturity	Total		Annual Interest Payable
					Outstanding at December 31, 2004		
	July 1, 2003	\$ 4,300,000	2.500%	2005	\$ 50,000	\$	\$ 163,625
			2.500%	2006	50,000		162,375
			2.500%	2007	100,000		161,125
			2.500%	2008	100,000		158,625
			2.650%	2009	125,000		156,125
			2.900%	2010	125,000		152,812
			3.100%	2011	125,000		149,187
			3.300%	2012	150,000		145,312
			3.400%	2013	150,000		140,362
			3.550%	2014	150,000		135,263
			3.650%	2015	175,000		129,938
			3.850%	2016	175,000		123,550
			3.850%	2017	175,000		116,813
			3.850%	2018	200,000		110,075
			3.950%	2019	200,000		102,375
			4.050%	2020	200,000		94,475
			4.150%	2021	200,000		86,375
			4.150%	2022	200,000		78,075
			4.200%	2023	250,000		69,775
			4.350%	2024	250,000		59,275
			4.400%	2025	250,000		48,400
			4.400%	2026	250,000		37,400
			4.400%	2027	300,000		26,400
			4.400%	2028	300,000		13,200
					<u>\$ 4,250,000</u>	<u>\$</u>	<u>\$ 2,620,937</u>

Call provision: Bonds maturing in the years 2004 to 2012, inclusive, are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing in the years 2013 through 2028, inclusive, shall be subject to redemption, at the option of the City, in such order as the City shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2012 at par and accrued interest to the date fixed for redemption.